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SUBJECT: EC SHEDS LIGHT ON CONFISCATED FOOD AID

REF: 06 ASMARA 458, and others

11. (SBU) SUMMARY: European Commission (EC) First Secretary Stephane Halgand (protect) told Emboffs the EC, with the full cooperation of the Eritrean government, is reviewing the seizing of 12,500 metric tons (MT) of its food aid in spring 2006. The review will likely recommend retroactively amending the EC's pre-2006 Eritrean food aid contracts to allow the seizure as part of a cash for work (CFW) scheme that sold the food aid locally to fund short-term agricultural and infrastructure projects. END SUMMARY.

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12. (SBU) WHERE'S THE WHEAT?  
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In an April 15 meeting, Halgand briefed Emboffs on the EC'S efforts to account for its food aid summarily confiscated in spring 2006 by the GSE to support a unilaterally instituted CFW scheme. The GSE confiscated at the time over 90,000 metric tons (MT) of total international food aid (mostly wheat): from the EC (12,500 MT), from USAID (14,000 MT/\$4.5 million), and from the World Food Program (WFP) (64,000 MT), as well as lesser amounts from other international donors. In fall 2006, high-level EC visitors informed the GSE that the Commission would be willing to amend its food aid contracts to allow for a CFW alternative, contingent upon the GSE fully accounting for the confiscated food stocks. In summer 2007, the GSE permitted an EC contractor to travel in 15 districts to conduct a review of the GSE's actual CFW activities. As a second, final stage of review, the EC is currently conducting a financial audit with the GSE about the disposition of funds from the seized food aid. Once this review is completed, the EC office in Asmara will forward its findings to Brussels with a recommendation on whether to retroactively amend the original food aid contracts to permit the GSE's CFW activities.

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13. (SBU) CASH FOR WORK IN PRACTICE  
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Halgand stated that the EC's 2007 review of the CFW program indicated that the seized food aid was, in fact, monetized under a CFW scheme to pay mainly unskilled laborers for soil and water conservation activities. Project workers were paid between \$1.33 and \$2.66 per day based on output. In monetizing the seized aid, Halgand believes the donor grain was transferred first from the

Ministry of Agriculture (MoA) to the Eritrean Grain Board (EGB) which set a standard price, and then sold to local flour mills for processing at \$32.00/MT. The processed grain was then transferred to the Ministry of Trade and Industry (MoTI) for distribution to local bakeries and Hidri ration outlets for \$104.00/MT.

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14. (SBU) THE GSE'S SURPRISINGLY DETAILED RECORD KEEPING  
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Halgand also provided an electronic copy of the March 2008 Final Report on EC Food Aid Contribution to the State of Eritrea (not for distribution). The report provided a detailed account of the organization of CFW, including internal GSE procedures, a listing of funded conservation projects, and the grain stock wastage. The report also concluded that the GSE's CFW program met the EC's criteria for enhancing food security, "project activities have contributed to food security and livelihoods at household level," and that over 300,000 people benefited from the scheme. Halgand elaborated that the EC would retroactively amend the pre-2006 food aid agreement with the GSE if EC headquarters views the results of the report as satisfactory.

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15. (SBU) COMMENT  
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Post believes the EC's audit provides a good overview of the disposition of all of the seized food aid. Halgand noted that Eritrea consumes approximately 600,000 MT of grain per year. Since the 90,000 MT of confiscated grain equals 2 months of normal consumption, he believes it probable that Eritrea's processing and distribution system effectively absorbed and processed almost the entire stock of seized donor food aid during spring/summer 2006.

ASMARA 00000225 002 OF 002

The EC's findings show no indication that any of the confiscated food aid was exported to obtain hard currency. Given the expense and effort of re-export compared to the minimal net hard currency gain (total food confiscated was worth approximately \$25 to \$30 million), Post agrees the GSE likely used the confiscated aid to displace regular food imports.

The Final Report on EC Food Aid Contribution to the State of Eritrea indicates a high level of sophistication in the GSE's accounting practices. Although the GSE does not share its financial and budget information, the report's detail indicate a strong system of internal financial accounting.

MCMULLEN